# <u>CERTIFIED DEVELOPMENT COMPANY 504 LOAN PROGRAM</u>

The 504 Loan Program is a long-term financing tool for economic development within a community. The 504 Loan Program provides growing businesses with long-term, fixed-rate financing for owner-occupied real estate and heavy equipment. A Certified Development Company is a nonprofit corporation set up to contribute to the economic development of its community. CDCs work with the SBA and private-sector lenders to provide financing to small businesses. There are about 270 CDCs nationwide. Each CDC covers a specific geographic area.

Typically, a 504 project includes a loan secured with a senior lien from a private-sector lender covering up to 50 percent of the project cost, a loan secured with a junior lien from the CDC (backed by a 100 percent SBA-guaranteed debenture) covering up to 40 percent of the cost, and a contribution of at least 10 percent equity from the small business being helped.

**MAXIMUM DEBENTURE** - Generally, the maximum SBA debenture is $5 million but can go up to $5.5 million for "Small Manufacturers" and for certain energy projects (**). A Small Manufacturer is defined as a small business concern that has its primary business classified in sector 31, 32, or 33 of the North American Industrial Classification System (NAICS); and has all of its production facilities located in the United States. In order to qualify for a $5.5 million 504 loan, the Small Manufacturer must 1) meet the definition of a Small Manufacturer described above, and 2) either (i) create or retain at least 1 job per $100,000 guaranteed by the SBA, or (ii) improve the economy of the locality or achieve one or more public policy goals.

**JOB CREATION/RETENTION** - Generally, a business must create or retain one job for every $65,000 provided by the SBA except for "Small Manufacturers" which have a $100,000 job creation or retention goal (see above).

If a project does not meet the jobs requirement, it may also qualify by meeting a public policy goal. The public policy goals are as follows:

- Business district revitalization
- Expansion of exports
- Expansion of minority business development
- Rural development
- Increasing productivity and competitiveness
- Restructuring because of federally mandated standards or policies
- Changes necessitated by federal budget cutbacks
- Expansion of small business concerns owned and controlled by veterans (especially service-disabled veterans)
- Expansion of small business concerns owned and controlled by women
- **Energy Projects:
    - Energy Reduction of existing energy consumption by at least 10%;
    - Increased use of sustainable designs, including designs that reduce the use of greenhouse gas emitting fossil fuels or low-impact design to produce buildings that reduce the use of non-renewable resources and minimize environmental impact;
    - Plant, equipment and process upgrades of renewable energy sources such as the small-scale production of energy for individual buildings or communities consumption, commonly known as micropower, or renewable fuel producers including biodiesel and ethanol producers.

**WHAT FUNDS MAY BE USED FOR** - Proceeds from 504 loans must be used for fixed asset projects which include: purchase of an existing building, construction of a new facility, or modernization, renovation or conversion of existing facility, grading, street improvements, utilities, parking lots and landscaping; and/or purchase of long-term machinery and equipment. The 504 Program cannot be used for working capital or inventory, or for any other non-fixed asset purposes. Debt refinancing is eligible under certain circumstances.

**TERMS, INTEREST RATES AND FEES** - Interest rates on 504 loans are pegged to an increment above the current market rate for five-year and 10-year U.S. Treasury issues. Maturities of 10 and 20 years are available. Fees total approximately three (3) percent of the debenture and may be financed with the loan.

**COLLATERAL** - Generally, the project assets being financed are used as collateral. Personal guaranties of the principal owners are required.

**ELIGIBLE BUSINESSES** - To be eligible, the business must be operated for profit and fall within the size standards set by the SBA. Under the 504 Program, the business qualifies as small if it does not have a tangible net worth in excess of $15 million and does not have an average net income in excess of $5.0 million after taxes for the preceding two years. Loans cannot be made to businesses engaged in speculation or investment in real estate, including rental property.

# VIRGINIA CERTIFIED DEVELOPMENT COMPANIES

| NAME & ADDRESS OF CDC | CONTACT | AREA OF OPERATION | VETERAN INCENTIVES<br><br>Offered to small businesses at least 51% owned by veterans |
|---|---|---|---|
| **Business Finance Group, Inc.**<br>3930 Pender Drive, Suite 300<br>Fairfax, VA 22030<br><br>Central Virginia Office:<br>Richmond, VA | **Rick Frank**<br>rfrank@businessfinancegroup.org<br>(703) 352-0504 or (800) 305-0504<br>FAX (703) 352-9100<br><br>**Curt V. Solomon**<br>(540) 846-7355 (cell)<br>csolomon@businessfinancegroup.org | State of Virginia. | See http://businessfinancegroup.org/nadco-vet-loan-advantage/ |
| **Chesapeake Business Finance Corporation**<br>1101 30th Street, N.W., Suite 500<br>Washington, DC 20007 | **John Sower**<br>Sower1@erols.com<br>(202) 625-4373<br>FAX (202) 342-0389 | Cities of Fredericksburg, Manassas and Manassas Park. Counties of Clarke, Fauquier, Prince William, Spotsylvania, Stafford and Warren. | |
| **Rappahannock Economic Dev. Corp.**<br>1125 Jefferson Davis Highway, Suite 420<br>Fredericksburg, VA 22401 | **Joe DiStefano**<br>jdistefano@redco504.org<br>(540) 373-2897<br>FAX 540-526-9898 | State of Virginia. | Reduction of the borrower's origination fee from 1.5% to 1.00% of REDCO's loan amount.<br><br>Reduction of the third party bank's fee from 0.5% to 0.25% on its share of the permanent loan. |
| **Tidewater Business Financing Corp.**<br>501 Independence Parkway, Suite 330<br>Chesapeake. VA 23320 | **Brent Swanson**<br>brent@tidewater504.com<br>PH: (757) 578 -2468<br>FAX (757) 623-0660 | State of Virginia and North Carolina counties of Bertie, Camden, Currituck, Chowan, Dare, Gates, Hertford, Northampton, Pasquotank and Perquimans. | Reduction of origination fee from 1.5% of net loan amount to 1%.<br><br>Also, CDC pays to SBA the required third party lender fee of ½ of 1% of the senior lender's loan amount. |